

MonetaryTrends



An Experiment Is Underway

The United States is now issuing a new golden dollar coin (the coin is gold in color, but has no gold content) with the image of Sacagawea—the only woman on the Lewis and Clark expedition.¹ This is the latest in a series of dollar coin designs.

Over the years, many countries have replaced their low-denomination paper currency with metal coins. Indeed, when the Euro begins circulation in 2002 the smallest denomination banknote will be €5—worth approximately \$5 at the current exchange rate. Governments prefer low-denomination coins to low-denomination notes because, in the long run, coins are less expensive. On average, coins have a projected life of 30 years while dollar bills are replaced about every 18 months. Hence, while the dollar bill costs about 3.5 cents to produce, compared to 12 cents for the dollar coin, the relatively short life of bills makes them more expensive over the long run.

There are currently about seven billion one-dollar bills in circulation; hence, the federal government will realize considerable savings if the public were to use dollar coins instead of dollar bills. Unlike other countries that removed the corresponding notes when low-denomination coins were introduced, in the legislation that authorized the golden dollar, Congress expressly stated that the dollar bill would not be removed from circulation. Therefore, the public may continue to use the dollar bill rather than the new coin.

None of the previous dollar coins found widespread use. The last attempt was the Susan B Anthony (SBA) dollar, which was introduced in 1979. While most of the nearly 890 million SBAs produced are now in circulation, only about half were in circulation by 1993.²

Two reasons for the lack of widespread use of the SBA have been offered. One is that they are too difficult to distinguish from the quarter. The other is that

people find coins inconvenient to use, relative to bills, and most people prefer to use bills if they are available. Advocates of the latter explanation note that countries that have successfully replaced small-denomination bills with coins have removed the bills from circulation.

The extent to which the golden dollar is used will indicate which of these reasons is the most valid. If the first reason accounts for the relative failure of the SBA, the golden dollar will be much more successful. The golden dollar is the same size as the SBA, but has smooth edges and is bright gold in color. Tests show that the golden dollar is easily distinguished from the quarter by touch alone.

If the second reason accounts for the lack of widespread use of the SBA, however, past experience here and elsewhere in the world suggests the golden dollar might not displace dollar bills significantly in daily transactions. The Canadian experience may be suggestive. The Royal Canadian Mint introduced its dollar coin, the “loonie” on July 1, 1987. Despite its distinctive eleven-sided outer edge and gold color, the loonie did not circulate widely until the Bank of Canada began to withdraw the \$1 bill from circulation in June of 1989.³

—Daniel L. Thornton

¹ More information about the golden dollar can be found at www.usmint.gov.

² About 41 million SBAs were minted in 1999. As of December 31, 1999, 22.7 million were in Federal Reserve Bank vaults.

³ For more details, see Caskey, John P. and Simon St. Laurent, “The Susan B. Anthony Dollar and the Theory of Coin/Note Substitution,” *Journal of Money, Credit and Banking* (August 1994), pp. 495-510.

